

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Lenawee County Medical Care Facility	County Lenawee
Audit Date December 31, 2005	Opinion Date February 9, 2006	Date Accountant Report Submitted To State: February 20, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 750 Trade Centre Way, Suite 300		City Portage	State MI
ZIP 49002			
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# Lenawee County Medical Care Facility

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Financial Report  
with Additional Information  
December 31, 2005

# Lenawee County Medical Care Facility

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## Independent Auditor's Report

Lenawee County Department of Human  
Services Board  
Lenawee County Medical Care Facility

We have audited the accompanying balance sheet of Lenawee County Medical Care Facility as of December 31, 2005 and 2004 and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lenawee County Medical Care Facility at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

*Plante & Moran, PLLC*

February 9, 2006

# Lenawee County Medical Care Facility

## Balance Sheet

	December 31, 2005	December 31, 2004
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 910,468	\$ 1,005,911
Resident accounts receivable (Note 3)	515,208	774,043
Other current assets - Prepaid expenses	96,855	110,542
Total current assets	1,522,531	1,890,496
<b>Assets Limited as to Use</b>	2,363,670	1,503,220
<b>Property and Equipment</b> (Note 4)	5,384,337	5,733,367
<b>Deferred Financing Costs</b>	46,691	51,879
Total assets	<b>\$ 9,317,229</b>	<b>\$ 9,178,962</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 327,990	\$ 201,312
Current portion of long-term debt (Note 5)	125,000	125,000
Funds held for residents	4,848	5,802
Accrued liabilities and other:		
Accrued compensation and related liabilities	380,456	320,817
Deferred revenue	-	38,904
Other accrued liabilities	96,600	96,251
Total current liabilities	934,894	788,086
<b>Long-term Debt</b> (Note 5)	1,160,000	1,285,000
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	4,099,337	4,323,367
Unrestricted	3,122,998	2,782,509
Total net assets	7,222,335	7,105,876
Total liabilities and net assets	<b>\$ 9,317,229</b>	<b>\$ 9,178,962</b>

# Lenawee County Medical Care Facility

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2005	2004
<b>Operating Revenue</b>		
Net service revenue	\$ 8,148,411	\$ 8,399,060
Other operating revenue	17,486	12,087
Proportionate share reimbursement	235,944	271,085
Total operating revenue	8,401,841	8,682,232
<b>Operating Expenses</b>		
Salaries	4,793,999	4,454,117
Other expenses	3,806,355	3,639,397
Total operating expenses	8,600,354	8,093,514
<b>Operating (Loss) Income</b>	(198,513)	588,718
<b>Other Income (Expense)</b>		
Interest income	56,335	13,081
Interest expense	(41,363)	(36,536)
Total other income (expense)	14,972	(23,455)
<b>Excess of Revenue Over (Under) Expenses</b>	(183,541)	565,263
<b>Contribution from County</b> (Note 9)	300,000	600,000
<b>Increase in Net Assets</b>	116,459	1,165,263
<b>Net Assets - Beginning of year</b>	7,105,876	5,940,613
<b>Net Assets - End of year</b>	<u>\$ 7,222,335</u>	<u>\$ 7,105,876</u>

# Lenawee County Medical Care Facility

## Statement of Cash Flows

	Year Ended	
	December 31, 2005	December 31, 2004
<b>Cash Flows from Operating Activities</b>		
Cash received from residents and third-party payors	\$ 8,407,246	\$ 8,346,596
Cash paid to employees and suppliers	(7,963,185)	(7,805,776)
Cash received from Proportionate Share Program	197,040	235,108
Other operating receipts	17,486	12,087
Net cash provided by operating activities	658,587	788,015
<b>Cash Flows from Noncapital Financing Activities</b>		
Resident trust withdrawals	(954)	(2,471)
Transfers from other county funds	300,000	600,000
Net cash provided by noncapital financing activities	299,046	597,529
<b>Cash Flows from Investing Activities</b> - Interest received	56,335	13,081
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds received on bonds	-	1,410,000
Principal payments on long-term debt	(125,000)	(1,407,087)
Interest paid on long-term debt	(41,363)	(36,536)
Purchase of property and equipment	(82,598)	(173,464)
Net cash used in capital and related financing activities	(248,961)	(207,087)
<b>Net Increase in Cash and Cash Equivalents</b>	765,007	1,191,538
<b>Cash and Cash Equivalents</b> - Beginning of year	2,509,131	1,317,593
<b>Cash and Cash Equivalents</b> - End of year	<b>\$ 3,274,138</b>	<b>\$ 2,509,131</b>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>		
Current assets	\$ 910,468	\$ 1,005,911
Assets limited as to use	2,363,670	1,503,220
Total cash and cash equivalents	<b>\$ 3,274,138</b>	<b>\$ 2,509,131</b>

# Lenawee County Medical Care Facility

## Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2005	December 31, 2004
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>		
Operating (loss) income	\$ (198,513)	\$ 588,718
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	431,628	430,126
Provision for bad debts	-	2,185
Deferred financing amortization	5,188	-
Changes in assets and liabilities:		
Decrease (increase) in resident accounts receivable	258,835	(54,649)
Decrease (increase) in prepaid expenses	13,687	(44,838)
Increase (decrease) in accounts payable	126,678	(31,743)
Increase (decrease) in other accrued expenses	59,639	(105,725)
Increase (decrease) in other liabilities	349	39,918
Decrease in deferred revenue	(38,904)	(35,977)
Net cash provided by operating activities	<u>\$ 658,587</u>	<u>\$ 788,015</u>

There were no significant noncash investing, capital, or financing activities in 2005 or 2004.

# Lenawee County Medical Care Facility

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## Notes to Financial Statements December 31, 2005 and 2004

### Note 1 - Nature of Business and Significant Accounting Policies

Lenawee County Medical Care Facility (the "Facility") is a component unit of the County of Lenawee (the "County"). The financial statements of the Facility are included in the County's basic financial statements.

The Facility is a 136-bed, medical care facility owned and operated by Lenawee County, providing services primarily to the residents of Lenawee County. It is governed by the Lenawee County Department of Human Services. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

**Enterprise Fund Accounting** - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has not elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**Basis for Presentation** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities. No component units are required to be reported in the Facility's financial statements.

**Property and Equipment** - Property and equipment amounts are recorded at historical cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets.

**Compensated Absences** - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

# Lenawee County Medical Care Facility

## Notes to Financial Statements December 31, 2005 and 2004

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Proportionate Share Reimbursement Program** - During the years ended December 31, 2005 and 2004, the Facility participated in the Proportionate Share Reimbursement Program (PSRP) sponsored by the State of Michigan.

In 2005, this program was discontinued by the State. The Facility received one payment in June 2005. The transaction was recorded into revenue in relation to the State fiscal year ended September 30, 2005.

In 2004, two transactions were completed. The first transaction in June was recorded in revenue in relation to the State fiscal year ended September 30, 2004. The second transaction in October was for the State fiscal year ending September 30, 2005 and, therefore, was recognized one quarter in revenue and three quarters in deferred revenue for 2004. The first transaction included an amount equal to approximately 3 percent of the annual Medicaid reimbursement in lieu of the normal adjustment or inflation factor.

**Service Revenue** - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	<u>2005</u>	<u>2004</u>
Percent of revenue:		
Medicaid	75 %	82 %
Medicare	7 %	5 %

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for inresident routine service costs, on a per diem basis, prospectively determined. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

# Lenawee County Medical Care Facility

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## Notes to Financial Statements December 31, 2005 and 2004

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Operating Revenues and Expenses** - The Facility's statement of revenue, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with all expenses incurred to provide health care services, other than financing costs. Nonexchange revenues, including taxes, interest, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**Net Assets** - Net assets of the Facility are classified in two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Resident Funds** - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents.

# Lenawee County Medical Care Facility

## Notes to Financial Statements December 31, 2005 and 2004

### Note 2 - Deposits

The Facility's deposits and investments are composed of the following:

	2005		2004	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits:				
County Treasurer	\$ 880,857	\$ 2,363,670	\$ 988,515	\$ 1,503,220
Bank	29,611	-	17,396	-
Total	<u>\$ 910,468</u>	<u>\$ 2,363,670</u>	<u>\$ 1,005,911</u>	<u>\$ 1,503,220</u>

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrument of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility's deposits and investments are subject to several types of risks including custodial credit risk of bank deposits and investments, interest rate risk, credit risk, and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility funds as these funds are only a portion of the total County deposits.

### Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2005	2004
Resident accounts receivable:	\$ 824,768	\$ 788,164
Uncollectible accounts	(145,469)	(145,416)
Medicaid interim payment receivable (advance)	(164,091)	131,295
Net resident accounts receivable	<u>\$ 515,208</u>	<u>\$ 774,043</u>

# Lenawee County Medical Care Facility

## Notes to Financial Statements December 31, 2005 and 2004

### Note 3 - Resident Accounts Receivable (Continued)

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	2005	2004
Medicare	17 %	14 %
Medicaid	67 %	65 %
Other payors	16 %	21 %
Total	100 %	100 %

### Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2005 are summarized below:

	2004	Additions	Transfers	Retirements	2005	Depreciable Life - Years
Land and land improvements	\$ 788,414	\$ -	\$ -	\$ -	\$ 788,414	5-20
Building	6,983,168	37,624	-	-	7,020,792	5-20
Equipment	2,438,682	9,142	-	-	2,447,824	5-20
Construction in progress	-	35,832	-	-	35,832	
Total	10,210,264	82,598	-	-	10,292,862	
Less accumulated depreciation:						
Land and land improvements	439,593	291,203	-	-	730,796	
Building	2,679,035	54,083	-	-	2,733,118	
Equipment	1,358,269	86,342	-	-	1,444,611	
Total	4,476,897	431,628	-	-	4,908,525	
Net carrying amount	\$ 5,733,367	\$ (349,030)	\$ -	\$ -	\$ 5,384,337	

Cost of capital assets and related depreciable lives for December 31, 2004 are summarized below:

	2003	Additions	Transfers	Retirements	2004	Depreciable Life - Years
Land and land improvements	\$ 788,414	\$ -	\$ -	\$ -	\$ 788,414	5-20
Building	6,894,451	88,717	-	-	6,983,168	5-20
Equipment	2,353,935	84,747	-	-	2,438,682	5-20
Total	10,036,800	173,464	-	-	10,210,264	
Less accumulated depreciation:						
Land and land improvements	145,801	293,792	-	-	439,593	
Building	2,631,971	47,064	-	-	2,679,035	
Equipment	1,268,999	89,270	-	-	1,358,269	
Total	4,046,771	430,126	-	-	4,476,897	
Net carrying amount	\$ 5,990,029	\$ (256,662)	\$ -	\$ -	\$ 5,733,367	

# Lenawee County Medical Care Facility

## Notes to Financial Statements December 31, 2005 and 2004

### Note 5 - Long-term Debt

Long-term liability activity for the year ended December 31, 2005 was as follows:

	<u>2004</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2005</u>	<u>Amounts Due Within One Year</u>
General obligation bonds	<u>\$ 1,410,000</u>	<u>\$ -</u>	<u>\$ (125,000)</u>	<u>\$ 1,285,000</u>	<u>\$ 125,000</u>

Long-term liability activity for the year ended December 31, 2004 was as follows:

	<u>2003</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>2004</u>	<u>Amounts Due Within One Year</u>
General obligation bonds	<u>\$ 1,407,087</u>	<u>\$ 1,410,000</u>	<u>\$ (1,407,087)</u>	<u>\$ 1,410,000</u>	<u>\$ 125,000</u>

General obligation bonds were issued through Lenawee County. Interest on the bonds ranges from 2 percent to 3.5 percent and annual payments range from \$125,000 in 2005 to \$165,000 in 2014.

<u>Year Ending December 31</u>	<u>Long-term Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 125,000	\$ 35,543
2007	130,000	32,830
2008	130,000	29,743
2009	135,000	26,261
2010	140,000	22,445
2011-2014	<u>625,000</u>	<u>43,327</u>
Total payments	<u>\$ 1,285,000</u>	<u>\$ 190,149</u>

### Note 6 - Defined Benefit Pension Plan

**Plan Description** - The Facility participates in the Lenawee County Board of Commissioners Retirement Income Plan, which is a defined benefit pension plan that covers all employees of the County who have completed 1,000 hours or more per year of service and elect to receive coverage. The plan provides retirement benefits, as well as death and disability benefits, to the plan members and their beneficiaries. The Lenawee County Board of Commissioners Retirement Income Plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the plan sponsor at the Lenawee County Board of Commissioners, 301 N. Main Street, Adrian, Michigan 49221.

# Lenawee County Medical Care Facility

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## Notes to Financial Statements December 31, 2005 and 2004

### Note 6 - Defined Benefit Pension Plan (Continued)

**Funding Policy** - The obligation to contribute to and maintain the plan for the covered employees was established in the Lenawee County Board of Commissioners Retirement Income Plan and requires a contribution from the employees of Groups 01 and 02 of 5.00 percent, from Group 08 of 2.5 percent, and all other groups of 4.50 percent. The funding policy provides for periodic employer contributions at an actuarially determined rate equal to the normal cost, plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liabilities over 17 years. The Facility's contributions to the plan for the plan years ended December 31, 2005, 2004, and 2003 were \$329,957, \$212,283, and \$256,006, respectively, and equal to the required contribution for each year.

### Note 7 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for property, loss, torts, errors and omissions, and medical benefit claims, and participates in the Michigan Municipal League (risk pool) for claims relation to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts.

### Note 8 - Hill-Burton Obligation

The Facility received a federal grant under the Hill-Burton program to assist in the construction of the existing building. All facilities that received these grants are required to provide charity care to individuals qualifying under income limits set by the Hill-Burton program. Although the Facility has made available this charity care, it has not received any applications for the charity care. Currently, the Facility still has an obligation to provide charity care under the Hill-Burton program.

# Lenawee County Medical Care Facility

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## Notes to Financial Statements December 31, 2005 and 2004

### Note 9 - Related Party and Affiliation

As discussed in Note 1, the Facility is related to the County of Lenawee.

**Borrowings from Other County Funds** - See Note 5 for details.

**Transfer from Other County Funds** - During the years ended December 31, 2005 and 2004, the County transferred \$300,000 and \$600,000, respectively, to the Facility for operations.

**Maintenance of Effort (M.O.E.)** - M.O.E. is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each medical patient day approved by the State during that month. Expenses relating to M.O.E. are not included in the financial statements as they were paid directly by the County.

## Additional Information

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Lenawee County Department of  
Human Services Board  
Lenawee County Medical Care Facility

We have audited the financial statements of Lenawee County Medical Care Facility as of December 31, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net service revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Plante & Moran, PLLC*

February 9, 2006

# Lenawee County Medical Care Facility

## Schedule of Net Service Revenue

	Year Ended December 31	
	2005	2004
<b>Skilled Nursing Services</b>		
Daily net room revenue:		
Medicaid	\$ 5,719,485	\$ 6,103,105
Medicare	512,770	352,395
Private pay and other	1,376,460	1,017,950
Total daily net room revenue	7,608,715	7,473,450
Ancillary revenue:		
Pharmacy	214,853	170,945
Therapy services	1,647,384	2,537,826
Other ancillary services	85,236	30,485
Total ancillary revenue	1,947,473	2,739,256
Gross skilled nursing services revenue	9,556,188	10,212,706
Revenue deductions:		
Provision for contractual discounts	(1,407,777)	(1,811,461)
Bad debt expense	-	(2,185)
Total revenue deductions	(1,407,777)	(1,813,646)
<b>Net Service Revenue</b>	<b>\$ 8,148,411</b>	<b>\$ 8,399,060</b>

# Lenawee County Medical Care Facility

## Schedule of Operating Expenses

	Year Ended December 31			
	2005			2004
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,125,930	\$ 1,125,930	\$ 927,378
Administration	397,235	177,129	574,364	592,127
Plant operations	101,129	249,142	350,271	318,041
Utilities	-	240,833	240,833	193,386
Laundry	156,380	33,564	189,944	178,096
Housekeeping	284,395	34,189	318,584	303,480
Dietary	500,470	414,517	914,987	860,548
Social services	98,387	808	99,195	88,798
Diversional therapy	135,484	12,376	147,860	183,364
Other ancillary services	62,142	41,796	103,938	41,575
Therapy services	-	359,670	359,670	577,613
Pharmacy	-	260,121	260,121	158,220
Nursing	3,058,377	419,464	3,477,841	3,240,734
Other services	-	-	-	28
Depreciation and amortization	-	436,816	436,816	430,126
2005 totals	<u><b>\$ 4,793,999</b></u>	<u><b>\$ 3,806,355</b></u>	<u><b>\$ 8,600,354</b></u>	
2004 totals	<u><b>\$ 4,454,117</b></u>	<u><b>\$ 3,639,397</b></u>		<u><b>\$ 8,093,514</b></u>